MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023

DAU5024 – AUDITING 2

(All sections/Groups)

23 NOVEMBER 2022
9.00 a.m. - 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 7 pages excluding cover page with 4 questions only.
2. Answer **ALL** questions.
3. Please write your answers in the Answer Booklet provided.

QUESTION 1

Hazel Care Berhad, a face wash manufacturing company has suffered a gradual loss of revenue since its establishment in 2019. In 2021, the company recorded a lower net profit of RM2.5 million. The Board of Directors are concerned with the financial state of the company as it will trigger a financial problem for the company in the future. The Board of Directors decided to hire your team to be the internal auditor for the company and examine the company's business process. Based on financial figures in 2021, the loss of revenue happens due to higher operating costs and expenses incurred by the company. The Board of Directors suspects that there is uncontrolled spending and dark purchases that occurred in the company. Below are the background of the company and the description of the company purchasing process.

Background of Hazel Care Berhad

The company manufactures a range of face wash products that are gentle for all types of skin. The products are marketed to various retailers around Malaysia. The company currently employs 545 staff who are assigned to the main office, production department, accounting department, purchasing department, warehouse department, sales department and marketing department. The company's financial year end is on 31 December 2021.

The company purchased raw materials such as aloe vera, niacinamide, retinol, ceramides and salicylic acid from local and international suppliers. All face wash is packed in a unique and high-quality plastic bottle manufactured by Winplas Sdn Bhd. The company has been purchasing plastic bottles from Winplas Sdn Bhd since its establishment in 2019.

Requisitioning Process

Any employees within the company may fill up a purchase requisition form if they need additional supplies or raw material materials that are out of stock. The form includes details such as the name of the employee making the request, the date of the request, the items requested, the expected delivery date, the delivery location and the signature of the employee who requested the items. The company use a standardised purchase requisition form and it is not pre-numbered. The employee who made the request will prepare two copies of the purchase requisition form. One copy will be sent to the purchasing department and another copy will be kept by the requestor department.

Purchasing Process

Hazel Care Berhad has one centralized purchase department and all purchase requisition forms must be forwarded here. Erica, the purchasing staff is responsible for compiling all purchase requisition forms received on a daily basis. Purchasing department receives in excess of 50 forms a day. Each purchase requisition will be checked and reviewed carefully. If there is an error or missing information in the purchase requisition form, the

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form will be returned back to the requestor department for updates. Next, Erica will choose a preferred supplier from the approved supplier list prepared in the year 2019. Erica will fill up four copies of the purchase order form based on the information stated in the purchase requisition form. The form is sequentially numbered and only purchase orders above RM10,000 require approval by Johnson, the purchase manager. Next, Erica will send each copy of the purchase order form to the supplier, the requestor department, and the receiving department. The last copy of the purchase order will be kept in the purchasing department.

Receiving Process

All goods sent by the supplier are received by receiving department. On receipt of the goods, the quantities received are checked by receiving staff and agreed to the purchase order form before the supplier's delivery order is signed to accept the goods. To speed up the receiving process, the employee who requested for the goods is allowed to collect the goods directly from the supplier in the receiving department. The receiving staff will prepare three copies of pre-numbered receiving reports, which will be signed and stamped by the receiving manager. Two copies of the receiving report will be forwarded to the requestor department and purchasing department and another copy will be forwarded to the accounting department.

Invoice Process

All supplier invoices will be kept in a supplier file. Sarah, the account assistant will match the information in the supplier invoice, receiving report and purchase order to verify the purchases before they are recorded in the purchase ledger account. Linda, another account assistant will prepare the cheque based on the total amount in the supplier invoice and forward it to the Finance Director for approval.

Required

(a) Identify and explain any **SIX (6)** weaknesses of internal control in the company's purchase processes. For each weakness, explain the potential risk that happen in the company.

(Note: Use the table format below to write your answers)

No	Weaknesses	Explanation of the risk
1.		
2.		
3.		
4.		
5.		
6.		

(24 marks)

Continued...

(b) List **FOUR (4)** information commonly found in a receiving report. (1 mark)

(Total: 25 marks)

QUESTION 2

PART A

You are the audit senior in charge of the audit of Nuvero Berhad, a public listed company. The company's year-end is 30 June, and the company has been an audit client for two years. Nuvero Berhad sells a variety of home storage and organiser to home retailers in Malaysia. The audit fieldwork is due to commence in 4 weeks time and you are preparing the audit work programme for the company trade receivables section. The audit work will cover three categories of substantive tests which are substantive test of analytical procedure, substantive tests of transaction and substantive test of account balance.

The company has provided your team with an aged trial balance of account receivables together with other sales documents as stated in **Figure 1** below:

- Delivery order
- Sales order form
- Sales invoice
- Customer monthly statement

Figure 1

Figure 2 shows the aged trial balance for the company's top five debtors with the highest accounts receivable balance. You plan to send a positive confirmation letter to verify the account receivable balances for all five debtors.

Ref. No	Customer Name	Total Current (RM)	30-60 days (RM)	60-90 days (RM)	90-120 days (RM)	120 days (RM)
F007	Bestco Berhad	154,000	65,400	30,000	58,600	0
G005	Goji Sdn Bhd	218,000	79,800	45,600	92,600	0
J004	Jumbo Berhad	196,500	37,500	0	159,000	0
P001	PlasCo Sdn Bhd	230,000	70,000	70,000	40,000	50,000
S002	Sunio Berhad	170,000	100,000	70,000	0	0
Total		**968,500**	**352,700**	**215,600**	**350,200**	**50,000**

Figure 2

Required

(a) Explain the purpose of **THREE (3)** types of substantive tests that you plan to perform during the fieldwork. (6 marks)

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(b) Describe the function of each sale document listed in **Figure 1**. (4 marks)

(c) What is a positive confirmation letter? (2 marks)

(d) What are the conditions that you need to consider before sending a positive confirmation letter to verify the account receivable balance? (2 marks)

(e) Based on **Figure 2**, which of the debtors has the **MOST** potential to cause a bad debt expense to Nuvero Berhad? Explain your answer. (3 marks)

PART B

You are the audit assistant at CW Brian & Co and you have been assigned to perform a cut-off test for the sales revenue account at Valrico Berhad, a food manufacturing company for the financial year ended 31 December 2021. During the fieldwork, you met Ms Lee, the accountant at Valrico Berhad and requested several documents from her as a preparation for the cut-off test for the sales revenue account. Adam, your audit senior informed you that the cut-off test should consist of seven samples of sales transactions before the year-end and after the year-end.

Required

(a) List any **TWO (2)** documents that you have requested from Ms Lee in preparation for the cut-off test for the company's sales revenue account. (2 marks)

(b) Explain how you will perform the cut-off test for the company's sales revenue account. (2 marks)

PART C

Vouching and tracing are two audit procedures that can be implemented to verify the sales revenue transaction in the account receivable subsidiary ledger. Both audit procedures fulfil different audit objectives during the audit process.

Required

(a) Explain how tracing can be used to verify the sales revenue transaction in the account receivable subsidiary ledger? (2 marks)

(b) What is the audit objective that can be achieved by the auditor through vouching and tracing procedures? (2 marks)

(Total: 25 marks)

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QUESTION 3

PART A

Yong Chua & Co has been appointed as the auditor for Galela Berhad for the year ended 30 June 2022. The company's Statement of Financial Position shows a significant amount of manufacturing equipment used in the company's operations. The finance manager of Galela Berhad asserted that the accountant had recorded all transactions related to manufacturing equipment adequately. The transactions are purchases of manufacturing equipment, disposal of manufacturing equipment and depreciation of manufacturing equipment.

Figure 3 shows the main internal control implemented by the company related to its manufacturing equipment.

- Proper documentation of manufacturing equipment.
- Proper authorisation of purchases and disposal of manufacturing equipment.
- Proper record of depreciation of manufacturing equipment.

Figure 3

The auditor plans to conduct analytical procedures and substantive tests of account balance to verify the manufacturing equipment account balances for the year. Assume you are the auditor for Yong Chua & Co.

Required

(a) Explain each of the internal control stated in **Figure 3.** (6 marks)

(b) Explain **TWO (2)** analytical procedures that you may use to verify the manufacturing equipment account balances. (4 marks)

(c) Describe the substantive test of account balance you will conduct to achieve the following audit objective:

i. Right and obligation of manufacturing equipment.
ii. Accuracy of depreciation expense.

(Note: Use the table format below to write your answer)

Audit Objective	Substantive test of account balance
i. Right and obligation of manufacturing equipment.	
ii. Accuracy of depreciation expense.	

(4 marks)

Continued...

PART B

On most audit engagements, the prepaid expense amount is not highly material. Usually, the auditor will use analytical procedures extensively to verify the account balances. An example of prepaid expenses is prepaid insurance.

Required

(a) What is a prepaid expense? (1 mark)

(b) Identify and explain **TWO (2)** examples of internal control that could be implemented on prepaid insurance transactions. (4 marks)

(c) State **ONE (1)** analytical procedure that can be used to examine the prepaid insurance account balance. (2 marks)

(d) Explain **TWO (2)** substantive tests of account balance that an auditor may apply to examine the **EXISTENCE** of prepaid insurance in an audit engagement. (4 marks)

(Total: 25 marks)

QUESTION 4

PART A

Well-Design Berhad undertakes its first Initial Public Offering (IPO) in the year 2018. The company has been financing its business through a mix of loan financing and equity financing. In order to support the cost of business expansion in the year 2021, the Board of Directors of the company has raised RM25,000,000 from equity financing and RM8,000,000 from loan financing. The company keeps its register of members at the registered office in Petaling Jaya. **Figure 4** below shows the main internal control the company implements for its loan financing transaction.

No	Internal Control for Loan Financing
1.	Proper authorisation of new loans
2.	Periodic independent verification

Figure 4

As the auditor in charge of the company, you are planning to review the internal control related to the company capital structure and conduct relevant audit procedures to examine the capital transactions that occurred in the financial year 2021.

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Required

(a) Explain **TWO (2)** differences between loans and equity financing. (4 marks)

(b) List **SIX (6)** types of information that you may find in the company's register of members. (6 marks)

(c) Describe the **TWO (2)** internal control implemented by the company for its loan financing as stated in **Figure 4**. (4 marks)

(d) Describe **ONE (1)** substantive analytical procedure you can conduct to verify the loans outstanding recorded in the financial statement for the year 2021. (2 marks)

(e) Explain **ONE (1)** substantive test of account balance that you may conduct to verify the existence of loan financing in the company. (2 marks)

PART B

The auditor of Young Design Berhad, Adam concluded that the company payroll and personnel cycle's internal control was inadequate. Adam is concerned about the internal control findings and plans to conduct a surprise payroll payoff one month before the company's financial year-end. Adam requests access to several documents from the company such as the personnel file and payroll journal.

Required

(a) What is the objective of a surprise payroll payoff? (1 mark)

(b) What audit procedures Adam may apply to perform surprise payroll payoff? (4 marks)

(c) State **FOUR (4)** information contains in the personnel file. (2 marks)

(Total: 25 marks)

End of Paper